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SIPDIS

DEPARTMENT FOR NEA/FO; NEA/ARP/BMASILKO

E.O. 12958: DECL: 6/18/2019

TAGS: [EFIN](#) [ECON](#) [EINV](#) [PGOV](#) [AE](#)

SUBJECT: DUBAI FINANCE DEPARTMENT STOIC ABOUT DUBAI INC. DEBT SITUATION

REF: A. A) DUBAI 166 (NOTAL)

[¶](#)B. B) DUBAI 111

[¶](#)C. C) ABU DHABI 189

CLASSIFIED BY: Paul Sutphin, Consul General, Consulate General Dubai, UAE.

REASON: 1.4 (b), (d)

[¶](#)1. (S) Summary. Two senior Dubai Department of Finance (DDF) officials told EmbOffs June 15 that Dubai Inc.'s debt woes were caused by poor coordination and debt management. The DDF is working with Dubai's Supreme Fiscal Committee to determine how the \$10 billion bond issued in February will be disbursed (reftels). Developer Nakheel has received a cash infusion, and is subject to strict DDF reporting requirements. Dubai is talking to the UAE Central Bank and foreign investors about floating the second \$10 billion tranche. While contractors wish the process was faster, it is clear that Dubai officials believe careful review and oversight is required. End Summary.

[¶](#)2. (S) During a June 15 meeting with EconChief and PolEconOff, Dubai Department of Finance Deputy Director General Mohammed Alshehi and Funds Management Director Marwan Abedin expressed disappointment in the state of Dubai's "private" finances. Noting that the Department of Finance funds all of the Government of Dubai entities except Dubai Electricity and Water Authority (DEWA), Alshehi and Abedin were quick to note the DDF had not been involved in Dubai Inc.'s debt amassment, and DDF debt was less than USD 5 billion. Abedin said that, in addition to the fact that Dubai Inc. firms lacked sufficient coordination and oversight, short-term debt had been used to finance long-term projects.

[¶](#)3. (S) The Department of Finance is now working with other entities, such as the Supreme Fiscal Committee (of which Alshehi is a member) and foreign consultants (reportedly Rothschild), to set up a "Support Fund" to disburse funds from the \$10 billion bond purchased by the UAE Central Bank in February (Ref C). Although fund organization is only 2/3 complete, Abedin said "Support Fund" disbursals would have strict terms and conditions. Developer Nakheel has already received a portion of the funds, which will also be subject to these terms. Alshehi noted repeatedly that the DDF is requiring all Dubai Inc. firms to provide detailed information about how the funding is to be disbursed, including to subcontractors. Although the DDF is not responsible for paying subcontractors, he noted that foreign diplomats had approached him urging payment to their nationals.

[¶](#)4. (S) Turning to the projected \$1 billion Dubai Government deficit in 2009, part of a fiscal stimulus package announced in

late 2008, Alshehi said government departments had been tasked to cut expenditures. Abedin added that the DDF may use a portion of the \$10 billion bond to cover any deficit.

¶ 15. (S) Abedin said Dubai is currently talking to the UAE Central Bank about a second \$10 billion bond tranche. When asked about press reports indicating sovereign wealth funds were interested in the bond, Abedin said there was some interest but suggested no decisions had been made. Abedin said Dubai was seeking a longer term (7-10 year) bond, in an effort to match bond tenors to infrastructure projects with long-term returns. He added that Dubai would be willing to pay a 100 basis point premium to secure a longer term.

¶ 16. (S) Comment. While local and foreign contractors and subcontractors continue to face payment delays, forced contract renegotiation, and project cancellation, it is clear that Dubai officials are determined to balance the checkbook. However, the challenge is significant and not without risk. Alshehi was reluctant to discuss why DDF Director General Nasser Al Shaikh -- widely believed to be driving the clean-up effort -- was removed in May, noting simply that the new Director General will continue implementation of the 2009-2012 medium-term plan. End Comment.

SUTPHIN